



United Nations

**United Nations Institute for Training
and Research**

**Financial report and audited
financial statements**

for the biennium ended 31 December 2011

and

Report of the Board of Auditors

**General Assembly
Official Records
Sixty-seventh Session
Supplement No. 5D**

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Report of the Board of Auditors



United Nations • New York, 2012

Note

Symbols of United Nations documents are composed of letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

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Letters of transmittal

30 March 2012

Pursuant to regulation 6.5 of the Financial Regulations and Rules of the United Nations, I have the honour to submit the 2010-2011 biennial accounts of the United Nations Institute for Training and Research as at 31 December 2011, which I hereby approve.

Copies of these financial statements are also being transmitted to the Advisory Committee on Administrative and Budgetary Questions.

(Signed) Carlos **Lopes**
Executive Director

United Nations Institute for Training and Research

The Chair of the Board of Auditors
United Nations
New York

30 June 2012

I have the honour to transmit to you the report of the Board of Auditors on the financial statements of the United Nations Institute for Training and Research for the biennium ended 31 December 2011.

(Signed) **Liu Jiayi**
Auditor-General of China
Chair of the Board of Auditors

The President of the General Assembly
United Nations
New York

Chapter I

Report of the Board of Auditors on the financial statements: audit opinion

We have audited the accompanying financial statements of the United Nations Institute for Training and Research (UNITAR) for the biennium ended 31 December 2011, which comprise the statement of income and expenditure and changes in reserves and fund balances (statement I); the statement of assets, liabilities and reserves and fund balances as at 31 December 2011 (statement II); the statement of cash flows (statement III), and the status of expenditures against budget (statement IV); and the notes to the financial statements.

Management's responsibility for the financial statements

The United Nations Controller is responsible for the preparation and fair presentation of these financial statements in accordance with the United Nations system accounting standards and for such internal control as the management deems is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of UNITAR as at 31 December 2011 and its financial performance and cash flows for the biennium then ended, in accordance with the United Nations system accounting standards.

Report on other legal and regulatory requirements

Furthermore, in our opinion, the transactions of UNITAR that have come to our notice, or which we have tested as part of our audit, have in all significant respects been in accordance with the Financial Regulations and Rules of the United Nations and legislative authority.

In accordance with article VII of the Financial Regulations and Rules of the United Nations, we have also issued a long-form report on our audit of UNITAR.

(Signed) **Liu Jiayi**
Auditor-General of China
Chair of the Board of Auditors
(Lead Auditor)

(Signed) **Terence Nombembe**
Auditor-General of South Africa

(Signed) **Amyas Morse**
Comptroller and Auditor-General of the
United Kingdom of Great Britain and Northern Ireland

30 June 2012

Chapter II

Long-form report of the Board of Auditors

Summary

The Board of Auditors (the Board) has audited the financial statements and reviewed the operations of the United Nations Institute for Training and Research (UNITAR) for the biennium ended 31 December 2011. The audit was carried out to review the financial transactions and operations at its headquarters in Geneva.

Audit opinion

The Board issued an unmodified audit report on the financial statements for the period under review, as reflected in chapter I.

Financial overview

For the biennium 2010-2011, the total income of UNITAR was \$42.05 million while the total expenditures amounted to \$42.62 million. At the end of the biennium, the total assets of UNITAR were \$16.77 million while the total liabilities amounted to \$9.34 million.

Financial reporting

The Board reviewed the accuracy and completeness of the financial reporting of UNITAR in the period under review and noted the following deficiencies:

- The Board noted that \$571,698 had been incorrectly recognized as a non-earmarked voluntary contribution for covering operational costs, representing 43 per cent of the total income of voluntary contributions. Following the audit, UNITAR made relative adjustments to the financial statements.
- The Board noted a lack of clarity as regards the programme support income. In the financial statements, programme support income represents 77 per cent of total income of the General Fund for the biennium 2010-2011 and is a major source of income for UNITAR in its daily operation. However, while all the other sources of income were explained in detail in the notes, the definition, sources and calculation methodology of the programme support income were not explained.
- The Board noted a lack of clarity as regards the scope of programme support and administrative costs. Besides the programme support cost, UNITAR charges additional administrative costs under the Special Purpose Grants Fund. However, the Board noted that there was no disclosure in the notes to the financial statements about the definition of the programme support and administrative costs, what should be included in administrative costs and how much should be charged to the Special Purpose Grants Fund. The Board noted two instances where UNITAR charged additional administrative costs to the Special Purpose Grants Fund. The Board is concerned that lack of clarity in the definition, scope and portion of programme support and administrative costs could affect the understanding of the financial statements.

Progress of the implementation of International Public Sector Accounting Standards

As per its governing body's decision, UNITAR will adopt International Public Sector Accounting Standards (IPSAS) in 2014, following the timeline of the United Nations (see A/67/5 (Vol. I)). While recognizing that UNITAR is part of the United Nations Secretariat's IPSAS implementation process and that the United Nations IPSAS team had developed a Secretariat-wide approach to IPSAS implementation, the Board noted that UNITAR had not established its own implementation team and had not developed its own action plan to prepare for the implementation of IPSAS. The Board also noted that UNITAR had had insufficient communication with the Headquarters IPSAS implementation team. The Board is concerned that the issues it has identified could delay IPSAS implementation in UNITAR.

Follow-up of previous recommendations

Of the five recommendations made for the biennium 2008-2009, three were fully implemented, one was under implementation, and one was not implemented.

Recommendations

The Board has made several recommendations based on its audit. The main recommendations are that UNITAR:

- (a) **In collaboration with United Nations Headquarters and the United Nations Office at Geneva (UNOG), disclose the information about the programme support income, including the definition, scope and calculation methodology in the notes to the financial statements to enable users to better understand the financial statements;**
- (b) **In collaboration with United Nations Headquarters and UNOG, clearly articulate the definition, scope and percentage of programme support cost and administrative cost to increase the transparency and understandability of the financial statements;**
- (c) **Intensify its efforts to ensure the timely implementation of IPSAS, including developing its own IPSAS implementation plan and change management plan, as well as establishing an IPSAS implementation team.**

A. Mandate, scope and methodology

1. The United Nations Institute for Training and Research (UNITAR) was established in 1965 as an autonomous body within the United Nations system with the purpose of enhancing the effectiveness of the United Nations through appropriate training and research. UNITAR is governed by a Board of Trustees and is headed by an Executive Director. It is totally self-funded and does not receive contributions from the United Nations regular budget. The Institute is supported by voluntary contributions from Governments, intergovernmental organizations, foundations, and other non-governmental sources.

2. The Board of Auditors (the Board) has audited the financial statements of UNITAR and reviewed its operations for the biennium from 1 January 2010 to 31 December 2011 in accordance with General Assembly resolution 74 (I). The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto, as well as the International Standards on Auditing. Those standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

3. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of UNITAR as at 31 December 2011 and the results of its operations and cash flows for the biennium then ended, in accordance with the United Nations system accounting standards. This included an assessment as to whether the expenditures recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether income and expenditures had been properly classified and recorded in accordance with the Financial Regulations and Rules of the United Nations. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

4. In addition to the audit of the accounts and financial transactions, the Board carried out reviews of UNITAR operations under financial regulation 7.5. This requires the Board to make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of UNITAR operations. The Board also followed up on its previous recommendations and addressed these matters in the relevant sections of the present report.

5. The Board reported the results of its interim audit to UNITAR in the form of a management letter containing detailed observations and recommendations.

6. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly, including specific requests from the General Assembly and the Advisory Committee on Administrative and Budgetary Questions.

7. The Board's observations and conclusions were discussed with the UNITAR administration, whose views have been appropriately reflected in the report.

B. Findings and recommendations

1. Follow-up of previous recommendations

8. Of the five recommendations made for the biennium 2008-2009, three were fully implemented, one was under implementation, and one was not implemented. Details of the status of implementation of those recommendations are shown in the annex to the present chapter.

9. The recommendation that was not implemented relates to the internal audit services. The Board had noted that no internal audit had been conducted in UNITAR and had recommended that UNITAR negotiate with the Office of Internal Oversight Services (OIOS) to develop a means to fund the internal audit services. The Board notes that UNITAR and OIOS have not reached an agreement in this regard and that no internal audit was performed during the period under review.

10. The recommendation under implementation relates to the overlap of financial and accounting functions between UNOG and UNITAR. At the time of the audit, UNITAR had been renegotiating with UNOG the memorandum of service agreement to clearly define the roles and responsibilities of the two entities. The Board is concerned that the lack of a renewed agreement will adversely affect the financial management of UNITAR, especially as regards preparations for the implementation of IPSAS. The Board therefore encourages UNITAR to expedite its negotiations with UNOG in order to reach an agreement.

2. Financial overview

11. For the biennium 2010-2011, the total income of UNITAR was \$42.05 million while its total expenditure amounted to \$42.62 million. As at the end of the biennium 2010-2011, the total assets of UNITAR were \$16.77 million while the total liabilities amounted to \$9.34 million.

12. Of the \$16.77 million in assets, \$14.46 million were cash or cash-equivalent assets deposited in the UNOG cash pool, which was in turn invested by the United Nations Treasury in New York. The \$14.46 million cash assets were mainly derived from the accumulated reserves and fund balances.

3. Financial reporting

13. Under the current financial reporting arrangements of UNITAR, non-earmarked contributions are credited to the General Fund to cover administrative costs of the Institute. Donations and grants for purposes specified by donors are credited to the Special Purpose Grants Fund against programme activity costs.

14. The Board examined the presentation of the financial statements of UNITAR for the biennium ended 31 December 2011 and identified the following deficiencies.

Incorrect recognition of the General Fund

15. UNITAR received a grant of \$731,907 from a donor according to the executive programme of the basic technical assistance agreement signed on 17 November 2009. In accordance with the agreement, UNITAR is to implement cooperation activities in the area of public policy, particularly with a view to training civil servants and other public agents of that donor, and also with the aim of developing

research and comparative analyses, training human resources, and fostering other technical cooperation modalities. In the agreement, the donor specified that UNITAR should designate its representative office in the donor country to be responsible for providing technical input for the implementation of the activities contemplated in the executive programme and that UNITAR should ensure full compliance. The Board is of the view that such a grant is a special purpose grant in nature, and that the grant and all expenditures incurred should therefore be linked to the executive programme and recorded under the Special Purpose Grants Fund.

16. The Board noted, however, that UNITAR had credited \$571,698 to the General Fund as a non-earmarked voluntary contribution and only the remaining amount of \$160,209 had been credited to the Special Purpose Grants Fund for project-based costs. In addition, the Board noted that four of the five expected accomplishments and seven of the nine outputs directly relating to the executive programme had not been achieved. Moreover, the representative office was closed at the end of 2011.

17. Following the audit, UNITAR made relative adjustments to the financial statements.

Lack of clarity as regards programme support income

18. Under the current financial arrangements, the general administrative and operational costs are covered by the General Fund while the project-related administrative and operational costs are recorded against the Special Purpose Grants Fund.

19. In the financial statements of UNITAR, the General Fund has four kinds of income sources, namely, voluntary contributions, programme support income, interest income and other/miscellaneous income. The Board noted that programme support income has become the major income source for the General Fund. For the period under review, programme support income amounted to \$2.97 million, representing 77 per cent of total income of the General Fund. While the other three items have received detailed explanations, the source of programme support income and the methodology for its calculation have not been disclosed in the notes to the financial statements.

20. UNITAR has explained that programme support income is generated when expenditures are incurred under the Special Purpose Grants Fund and is transferred from the Special Purpose Grants Fund to the General Fund to cover the expenses of the entity. UNITAR has further explained that programme support income is commuted on a fixed percentage of programme support cost. The fixed rate was set as 13 per cent before January 2008 but was later revised by the Board of Trustees to be 7 per cent except in cases where another rate is set in the agreement with the donor. This information was explained by the UNITAR administration, but it was not disclosed in the financial statements.

21. The Board is concerned that lack of a definition for programme support income and of information about how it is calculated could adversely affect the transparency and the readers' understanding of the financial statements.

22. **The Board recommends that UNITAR, in collaboration with the United Nations Headquarters and UNOG, disclose the information about the programme support income, including the definition, the scope and the**

calculation methodology in the notes to the financial statements to enable users to better understand the financial statements.

Lack of clarity as regards the scope of programme support cost and administrative cost

23. Programme support cost is an important expenditure for UNITAR. Except for the amount of \$2.97 million in programme support cost disclosed in the financial statements, the definition and uses of programme support cost are not disclosed in the notes to the financial statements.

24. In addition, there is no definition in the notes of administrative cost and what it should include. The Board notes that although a certain percentage of funds (usually 7 per cent) is transferred from the Special Purpose Grants Fund to the General Fund to cover administrative costs, UNITAR charges additional administrative costs under the Special Purpose Grants Fund. For example:

(a) The programme designed for updating national chemicals profiles and developing a national strategic approach to international chemicals management in 15 countries is classified as a special purpose grant. However, the expenditure (\$102,438) under this programme was used to cover education grants (\$46,608) for one staff member in the Support Services Department and the reimbursement of income taxes (\$55,830), all of which, in the Board's opinion, are administrative costs;

(b) The programme that provides continuous support for addressing primary mercury mining, with a grant of 250,000 Swiss francs (equivalent to \$264,550), is also classified as a special purpose grant. The expenditure under the programme (\$110,679) was used to cover the salaries of eight staff members in the Support Services Department. These were administrative costs, accounting for more than 40 per cent of the grant.

25. The Board noted that besides the expenditure reflected in the programme support cost account, some administrative costs had been reflected directly in the account of the Special Purpose Grants Fund. However, it is not clear to the Board what expenditure should be charged as administrative costs and at what rate the Special Purpose Grants Fund can be charged to cover administrative costs.

26. UNITAR explained that it was common that some portion of administrative costs would be charged against the Special Purpose Grants Fund since these costs are directly attributable to the delivery of training events.

27. The Board is of the view that UNITAR should clearly define programme support cost and administrative cost and articulate what expenditure should be included and how much they should charge to the Special Purpose Grants Fund. Lack of clarity in the definition, scope and percentage of calculation of programme support cost and administrative cost can affect the fair presentation as well as the transparency of the financial statements.

28. The Board recommends that UNITAR, in collaboration with United Nations Headquarters and UNOG, clearly articulate the definition, scope and percentage of programme support cost and administrative cost in order to increase the transparency and comprehensibility of the financial statements.

29. UNITAR commented that it would disclose the programme support cost rate in its financial report for the biennium ended 31 December 2011. (The financial report is not part of the Board's report.) The Board holds the view, however, that this information should be disclosed in the financial statements so that readers can obtain a full understanding of the organization's financial position and performance.

4. International Public Sector Accounting Standards

Insufficient preparations for implementing IPSAS

30. In accordance with General Assembly resolution 60/283 and in response to the comments of the Advisory Committee on Administrative and Budgetary Questions (see A/61/350), the Board reviewed the implementation arrangements made by UNITAR. While recognizing that UNITAR is part of the United Nations Secretariat's IPSAS implementation process and that the United Nations IPSAS team had developed a Secretariat-wide approach to IPSAS implementation, the Board identified the following deficiencies, which, if not properly addressed, may cause delays in the adoption of IPSAS:

- **Lack of IPSAS implementation plan**

UNITAR states that it would follow the United Nations IPSAS team's timeline for the implementation of IPSAS, but there has not yet been an affirmative response to the Board's request for a UNITAR implementation plan.

- **Absence of IPSAS implementation team at UNITAR**

While the United Nations Office at Geneva (UNOG) coordinated with all United Nations entities in Geneva, including UNITAR, to provide comments on the draft IPSAS policy framework, the daily responsibility for managing the project remains with the IPSAS team at Headquarters. As at the time of the audit, there was no IPSAS implementation team dedicated to preparations for IPSAS adoption at UNITAR.

- **Lack of full awareness of changes to be brought by the implementation of IPSAS**

IPSAS implementation is a major business change programme, which is expected to have an impact on staff, management and those responsible for governance. It is vital that an entity identify changes to result from the implementation of IPSAS and take action to address the need for changes. The Board noted that UNITAR had not proactively identified and prepared for changes to be brought by the implementation of IPSAS.

- **Insufficient communication with United Nations Headquarters IPSAS implementation team**

For entities that follow the timeline of the United Nations for implementation of IPSAS, it is important to have sufficient and proactive communication with the Headquarters IPSAS implementation team to clearly understand instructions the team will give and what entities need to do themselves, so as to ensure a smooth implementation of IPSAS. The Board noted that UNITAR had had insufficient communication with the IPSAS team at Headquarters and that most of the time it just waited for the instructions from the Headquarters IPSAS implementation team.

31. Considering that implementation of IPSAS is complex and time-consuming, the Board is concerned about insufficient preparations that can result in implementation delays.

32. **The Board recommends that UNITAR intensify its efforts to ensure the timely implementation of IPSAS, including by developing its own IPSAS implementation and change management plans, as well as by establishing an IPSAS implementation team.**

33. The UNITAR administration commented that, owing to its relatively small size, the initial IPSAS implementation activities relating to UNITAR will be led by UNOQ, with support from UNITAR. As the implementation work intensifies and the projects move into the implementation phase, UNITAR intends to take greater ownership of its IPSAS implementation process, including with the establishment of a UNITAR IPSAS team. The administration further commented that an implementation plan for UNITAR was being developed accordingly.

C. Disclosures by management

1. Write-off of cash, receivables and property

34. UNITAR reported no write-off of losses of cash, receivables and other assets in the biennium 2010-2011.

2. Ex gratia payments

35. As required by financial regulation 5.11, UNITAR reported that no ex gratia payments were made in the biennium 2010-2011.

3. Cases of fraud and presumptive fraud

36. UNITAR reported no cases of fraud and presumptive fraud during the biennium 2010-2011.

D. Acknowledgement

37. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Director and the staff members of UNITAR.

(Signed) **Liu Jiayi**
Auditor-General of China
Chair of the Board of Auditors
(Lead Auditor)

(Signed) **Terence Nombembe**
Auditor-General of South Africa

(Signed) **Amyas Morse**
Comptroller and Auditor-General of the
United Kingdom of Great Britain and Northern Ireland

30 June 2012

Annex

Status of implementation of recommendations for the biennium ended 31 December 2009

Summary of recommendations	Paragraph reference in the previous report (A/65/5/Add.4, chap. II)	Financial period first made	Under		
			Implemented	implementation	Not implemented
Consider a revision of its policy for the valuation of leave liability in its implementation of the International Public Sector Accounting Standards	32	2008-2009	X		
Include as part of its results-based management processes the evaluation of all its sections in the programme performance report	44	2008-2009	X		
In coordination with UNOG, update the memorandum of service agreement on the basis of the reforms currently being undertaken	52	2008-2009		X	
In coordination with UNOG, adhere to the requirements of section 15.1.2 of the Procurement Manual (2008 version) concerning vendor performance evaluation	48	2008-2009	X		
In collaboration with the Office of Internal Oversight Services, ensure effective internal audit coverage at UNITAR	56	2000-2001			X
Total			3	1	1
Percentage			60	20	20

Chapter III

Certification of the financial statements

The financial statements of the United Nations Institute for Training and Research for the biennium ended 31 December 2011 have been prepared in accordance with financial rule 106.10.

The summary of significant accounting policies applied in the preparation of these statements is included as notes to the financial statements. These notes provide additional information on and clarification of the financial activities undertaken by the Institute during the period covered by these statements, for which the Secretary-General has administrative responsibility.

I certify that the appended financial statements of the United Nations Institute for Training and Research, numbered I to IV, are correct.

(Signed) Maria Eugenia Casar
Assistant Secretary-General, Controller

28 March 2012

Chapter IV

Financial report for the biennium ended 31 December 2011

A. Introduction

1. The Executive Director has the honour to submit herewith the financial report on the accounts of the United Nations Institute for Training and Research (UNITAR) for the biennium ended 31 December 2011.
2. The present report is designed to be read in conjunction with the financial statements. Attached hereto is an annex, which includes supplementary information that is required to be reported to the Board of Auditors under the Financial Regulations and Rules of the United Nations.

B. Overview

Income and expenditure and changes in reserves and fund balances

General Fund

3. Total income for the biennium 2010-2011 decreased by 18 per cent to \$3,874,000 from \$4,704,000 in the previous biennium. This was due mainly to a decrease in voluntary contributions of \$920,000, which was partially offset by an increase in programme support income of \$142,000 resulting from an increase in the activities under the Special Purpose Grants Fund. The projects under the Special Purpose Grants Fund are subject to programme support costs at 7 per cent since the beginning of 2008; projects established earlier are subject to programme support costs of up to 13 per cent.
4. Total expenditure for the biennium 2010-2011 decreased by 25 per cent to \$3,873,000 from \$5,179,000 in the previous biennium. The decrease in expenditure is largely attributable to the restructuring of the Institute which was started in 2007 and implemented during the 2008-2009 biennium. In 2008, the Institute introduced a revised budget policy to change the budgeting for the Special Purpose Grants Fund to include knowledge management as input for the delivery of knowledge-based activities and training outputs.
5. The reserves and fund balance at the end of December 2011 increased to \$791,000 from \$712,000 at the end of the previous biennium. This increase is attributable to the cancellation of prior period obligations charged to the General Fund.

Special Purpose Grants Fund

6. Total income for the biennium 2010-2011 increased by 23 per cent to \$38,957,000 from \$31,581,000 in the previous biennium. This is attributable principally to an increase in contributions to the Special Purpose Grants Fund resulting from increased fundraising activities by the Institute and an increase in income generated from training and training-related services and products.
7. Total expenditure for the biennium 2010-2011 increased by 24 per cent to \$39,530,000 from \$31,960,000 in the previous biennium. The increase in

expenditure is attributable mainly to the growth in the size and number of projects implemented by UNITAR.

8. The reserves and fund balance as at 31 December 2011 of \$10,356,000 remained almost the same compared to the balance as at 31 December 2009 of \$10,338,000, as the shortfall of income over expenditure and refunds to donors was offset by the cancellation of prior period obligations.

Activities financed by the United Nations Development Programme

9. Total expenditure against approved allocation from the United Nations Development Programme increased from \$751,000 in the previous biennium to \$2,252,000 owing to an increase in the number of projects implemented during the biennium.

After-service health insurance

10. The after-service health insurance (ASHI) liability of \$3,720,000 as at 31 December 2011, determined on the basis of an actuarial valuation, increased significantly by \$1,797,000 compared to the liability of \$1,923,000 as at 31 December 2009. The increase is explained mainly by an actuarial loss of \$1,124,000, which is primarily due to the change in the assumption for discount rates, from 6.0 per cent as at 31 December 2009 to 4.5 per cent as at 31 December 2011.

Assets, liabilities, reserves and fund balances

11. As at 31 December 2011, the General Fund and the Special Purpose Grants Fund had shares of the offices away from Headquarters cash pools in the amounts of \$1,117,000 and \$13,340,000, respectively. The total assets of the Institute as at 31 December 2011 amounted to \$16,769,000, representing an increase of 9 per cent or \$1,352,000 from the end of the previous biennium. This was attributable primarily to increased recognition of commitments for future financial periods as deferred charges.

12. As at 31 December 2011, the total liabilities of the Institute increased by \$3,052,000 to \$9,342,000. This increase of 49 per cent is attributable mainly to the increase in the end-of-service and post-retirement liabilities of \$2,233,000 and unliquidated obligations for future periods of \$801,000.

Status of expenditure against approved budget

13. The status of the General Fund expenditure against approved budget during the biennium 2010-2011 amounted to \$3,873,000 which was within the approved budget of \$4,716,000. The underspending is due primarily to the transfer of expenditure from the General Fund to the Special Purpose Grants Fund as the related voluntary contribution was reported under the Special Purpose Grants Fund.

Annex**Supplementary information**

1. The present annex includes the information the Executive Director is required to report.

Write-off of losses of cash and receivables

2. In accordance with financial rule 106.8, there were no write-offs of cash and accounts receivable during the biennium 2010-2011.

Write-off of losses of property

3. There were no write-offs of losses of property during the biennium 2010-2011.

Ex gratia payments

4. There were no ex gratia payments during the biennium 2010-2011.

Chapter V

Financial statements for the biennium ended 31 December 2011

Statement I

United Nations Institute for Training and Research^a

Statement of income and expenditure and changes in reserves and fund balances for the biennium ended 31 December 2011

(Thousands of United States dollars)

	Other activities					Total 2009
	General Fund	Special Purpose Grants Fund	Activities financed by UNDP	After-service health insurance ^b	All funds eliminations	
Income						
Voluntary contributions	752	28 006	-	-	-	28 758
Funds received under inter-organization arrangements	-	8 309	2 252	-	-	10 561
Programme support income	2 975	-	-	-	(2 975)	-
Interest income	37	414	-	-	-	451
Other/miscellaneous income	110	2 228	-	-	(58)	2 280
Total income	3 874	38 957	2 252	-	(3 033)	34 172
Expenditure						
Staff and other personnel costs	2 793	19 998	1 190	-	-	23 981
Travel	268	1 650	140	-	-	2 058
Contractual services	276	1 853	108	-	-	2 237
Operating expenses	526	1 648	182	-	-	2 356
Acquisitions	8	226	350	-	-	584
Other	2	11 278	126	-	-	11 406
Total direct expenditure	3 873	36 653	2 096	-	-	35 026
Programme support costs	-	2 877	156	-	(3 033)	-
Total expenditure	3 873	39 530	2 252	-	(3 033)	35 026
Excess (shortfall) of income over expenditure	1	(573)	-	-	-	(854)

	Other activities					Total 2011	Total 2009
	General Fund	Special Purpose Grants Fund	Activities financed by UNDP	After-service health insurance ^b	All funds eliminations		
Non-budgeted accrued income/(expenses) for after-service health insurance costs ^c	-	-	-	(1 797)	-	(1 797)	448
Prior period adjustments	(3)	3	-	-	-	-	(1)
Net excess (shortfall) of income over expenditure	(2)	(570)	-	(1 797)	-	(2 369)	(407)
Cancellation of prior period obligations	81	693	-	-	-	774	277
Refund to donors	-	(105)	-	-	-	(105)	(299)
Reserves and fund balances, beginning of period	712	10 338	-	(1 923)	-	9 127	9 556
Reserves and fund balances, end of period	791	10 356	-	(3 720)	-	7 427	9 127

^a See note 3.^b See note 5 (b).^c Represents net decrease (increase) in accrued liability for after-service health insurance costs.

The accompanying notes are an integral part of the financial statements.

Statement II
United Nations Institute for Training and Research^a

Statement of assets, liabilities and reserves and fund balances as at 31 December 2011

(Thousands of United States dollars)

	Other activities				After-service health insurance ^b	All funds eliminations	Total 2011	Total 2009
	General Fund	Special Purpose Grants Fund	Activities financed by UNDP					
Assets								
Cash and term deposits	-	12	-	-	-	-	12	9
Offices away from Headquarters cash pool ^c	1 117	13 340	-	-	-	-	14 457	14 053
Pledged contributions receivable	12	-	-	-	-	-	12	125
Inter-fund balances receivable	-	202	753	-	-	(955)	-	-
Other accounts receivable	1	109	6	-	-	907	1 023	808
Deferred charges	11	1 254	-	-	-	-	1 265	422
Total assets	1 141	14 917	759	-	-	(48)	16 769	15 417
Liabilities								
Contribution received in advance	1	-	-	-	-	-	1	74
Unliquidated obligations — current period	143	2 232	336	-	-	-	2 711	2 241
Unliquidated obligations — future period	-	1 199	-	-	-	-	1 199	398
Inter-fund balances payable	48	-	-	-	-	(48)	-	-
Payable to funding source	-	-	422	-	-	-	422	643
Other accounts payable	13	91	1	-	-	-	105	263
End-of-service and post-retirement liabilities	145 ^d	1 039 ^e	-	3 720	-	-	4 904	2 671
Total liabilities	350	4 561	759	3 720	(48)	-	9 342	6 290

	Other activities				All funds eliminations	Total 2011	Total 2009
	General Fund	Special Purpose Grants Fund	Activities financed by UNDP	After-service health insurance ^a			
Reserves and fund balances							
Operating reserves	267	-	-	-	-	267	408
Balances relating to projects funded by donors	-	10 356	-	-	-	10 356	10 338
Cumulative surplus (deficit)	524	-	-	(3 720)	-	(3 196)	(1 619)
Total reserves and fund balances	791	10 356	-	(3 720)	-	7 427	9 127
Total liabilities and reserves and fund balances	1 141	14 917	759	-	(48)	16 769	15 417

^a See note 3.

^b See note 5 (b).

^c Represents share of United Nations offices away from Headquarters cash pools and comprises cash and term deposits of \$1,643,050, short-term investments of \$4,129,033 (market value \$4,136,670), long-term investments of \$8,649,279 (market value \$8,663,931) and accrued interest receivable of \$35,344. See note 4.

^d Represents total accrued liabilities for repatriation benefits of \$98,000 and unused vacation days of \$47,000. See note 5 (c) and (d).

^e Represents total accrued liabilities for repatriation benefits of \$739,000 and unused vacation days of \$300,000. See note 5 (c) and (d).

The accompanying notes are an integral part of the financial statements.

Statement III
United Nations Institute for Training and Research^a
Statement of cash flows for the biennium ended 31 December 2011
 (Thousands of United States dollars)

	Other activities					Total 2009
	General Fund	Special Purpose Grants Fund	Activities financed by UNDP	After-service health insurance ^b	All funds eliminations	
Cash flows from operating activities						
Net excess (shortfall) of income over expenditure (statement I)	(2)	(570)	-	(1 797)	-	(407)
(Increase) decrease in pledged contributions receivable	113	-	-	-	-	(88)
(Increase) decrease in inter-fund balances receivable	-	(179)	(67)	-	246	-
(Increase) decrease in other accounts receivable	3	8	(4)	-	(222)	1 206
(Increase) decrease in deferred charges	(11)	(832)	-	-	-	314
Increase (decrease) in contributions received in advance	(73)	-	-	-	-	32
Increase (decrease) in unliquidated obligations	12	968	291	-	-	632
Increase (decrease) in inter-fund balances payable	24	-	-	-	(24)	-
Increase (decrease) in payable to funding source	-	-	(221)	-	-	304
Increase (decrease) in other accounts payable	(46)	(113)	1	-	-	81
Increase (decrease) in end-of-service and post-retirement liabilities	(50)	486	-	1 797	-	(896)
Less: interest income	(37)	(414)	-	-	-	(792)
Net cash flows from operating activities	(67)	(646)	-	-	-	386
Cash flows from investing activities						
Interest income	37	414	-	-	-	792
Net cash flows from investing activities	37	414	-	-	-	792

	Other activities					Total 2011	Total 2009
	General Fund	Special Purpose Grants Fund	Activities financed by UNDP	After-service health insurance ^b	All funds eliminations		
Cash flows from financing activities							
Cancellation of prior period obligations	81	693	-	-	-	774	277
Refund to donors	-	(105)	-	-	-	(105)	(299)
Net cash flows from financing activities	81	588	-	-	-	669	(22)
Net increase (decrease) in cash, term deposits and United Nations offices away from Headquarters cash pools	51	356	-	-	-	407	1 156
Cash, term deposits and United Nations offices away from Headquarters cash pools, beginning of period	1 066	12 996	-	-	-	14 062	12 906
Cash, term deposits and United Nations offices away from Headquarters cash pools, end of period	1 117	13 352	-	-	-	14 469	14 062

^a See note 3.^b See note 5 (b).

The accompanying notes are an integral part of the financial statements.

Statement IV
United Nations Institute for Training and Research^a

Status of expenditure against budget for the biennium 2010-2011 ended 31 December 2011

(Thousands of United States dollars)

Programme	Budget ^a			Expenditure			Unencumbered balance
	Original	Changes	Revised	Disbursements	Unliquidated obligations	Total	
Office of the Executive Director	663	152	815	621	3	624	191
Research Department	690	128	818	634	—	634	184
Support Services Department	2 298	365	2 663	2 056	140	2 196	467
Training Department	420	—	420	419	—	419	1
Total	4 071	645	4 716	3 730	143	3 873	843

^a The 2010-2011 budget for the General Fund does not include certain administrative costs that are charged against the Special Purpose Grants Fund, and is extracted from the overall 2010-2011 budget for UNITAR that was initially approved by the Board of Trustees in November 2009 and revised in February 2011.

The accompanying notes are an integral part of the financial statements.

Notes to the financial statements

Note 1

The United Nations Institute for Training and Research and its activities

(a) The United Nations Institute for Training and Research (UNITAR) was established in 1965 as an autonomous body within the United Nations with the purpose of enhancing the effectiveness of the Organization through appropriate training and research. UNITAR is governed by a Board of Trustees and is headed by an Executive Director. The Institute is supported by voluntary contributions from Governments, intergovernmental organizations, foundations, the private sector and other non-governmental sources.

(b) The mission of UNITAR is to deliver innovative training and conduct research on knowledge systems to develop the capacity of beneficiaries. Building on experience, UNITAR optimizes expertise, information and knowledge-sharing to achieve this mission.

(c) UNITAR training programmes are divided among three thematic units: the Environment Unit, the Peace, Security and Diplomacy Unit and the Governance Unit. Furthermore, the work of the Institute is supported by outposted offices in New York, Brasilia and Hiroshima, Japan, and a Research Department responsible for developing research activities on knowledge systems conducive to delivering better training.

UNITAR training programmes are presented under the following titles:

- (i) Environment Unit
 - Environmental Governance
 - Chemicals and Waste Management
 - Climate Change
- (ii) Peace, Security and Diplomacy Unit
 - Multilateral Diplomacy
 - International Law
 - Peacemaking and Conflict Prevention
 - Peacekeeping Training
- (iii) Governance Unit
 - Public Finance and Trade
 - Local development

Note 2

Summary of significant accounting and financial reporting policies of the United Nations Institute for Training and Research

(a) As provided in article VIII of its statute, the UNITAR accounts are maintained in accordance with the Financial Regulations of the United Nations as adopted by the General Assembly, the rules formulated by the Secretary-General as required under the Regulations, and administrative instructions issued by the Under-

Secretary-General for Management or the Controller. They also take fully into account the United Nations system accounting standards, as adopted by the United Nations System Chief Executives Board for Coordination. The Institute follows International Accounting Standard 1, "Presentation of financial statements", on the disclosure of accounting policies, as modified and adopted by the Chief Executives Board, as shown below:

- (i) Going concern, consistency and accrual are fundamental accounting assumptions. Where fundamental accounting assumptions are followed in financial statements, disclosure of such assumptions is not required. If a fundamental accounting assumption is not followed, that fact should be disclosed together with the reasons;
 - (ii) Prudence, substance over form and materiality should govern the selection and application of accounting policies;
 - (iii) Financial statements should include clear and concise disclosure of all significant accounting policies that have been used;
 - (iv) The disclosure of the significant accounting policies used should be an integral part of the financial statements. These policies should normally be disclosed in one place;
 - (v) Financial statements should show comparative figures for the corresponding period of the preceding financial period;
 - (vi) A change in an accounting policy that has a material effect in the current period or may have a material effect in subsequent periods should be disclosed together with the reasons. The effect of the change should, if material, be disclosed and quantified.
- (b) The Institute's accounts are maintained on a fund accounting basis. Separate funds for general or special purposes may be established by the General Assembly or the Executive Director. Each fund is maintained as a distinct financial and accounting entity with a separate self-balancing, double-entry group of accounts. Financial statements reflect activities of each fund or of a group of funds of the same nature.
- (c) The financial period of the Institute is a biennium and consists of two consecutive calendar years.
- (d) Generally, income, expenditure, assets and liabilities are recognized on the accrual basis of accounting.
- (e) The accounts of the Institute are presented in United States dollars. Accounts maintained in other currencies are translated into United States dollars at the time of the transactions at rates of exchange established by the United Nations. In respect of such currencies, the financial statements shall reflect the cash, investments, unpaid pledges, and current accounts receivable and payable in currencies other than the United States dollar, translated at the applicable United Nations rates of exchange in effect as at the date of the statements. In the event that the application of actual exchange rates at the date of the statements would provide a valuation materially different from the application of the United Nations rates of exchange for the last month of the financial period, a footnote will be provided quantifying the difference.

(f) The Institute's financial statements are prepared on the historical cost basis of accounting, and are not adjusted to reflect the effects of changing prices for goods and services.

(g) The statement of cash flows is based on the indirect method of cash flows, as referred to in the United Nations system accounting standards.

(h) The Institute's financial statements are presented in accordance with the ongoing recommendations of the Task Force on Accounting Standards to the High-level Committee on Management.

(i) The results of the Institute's operations presented in statements I, II, and III are shown by general type of activity as well as on a combined basis for all funds, after the elimination of all inter-fund balances and instances of double-counting of income and expenditure. Their presentation on a combined basis does not imply that the various separate funds can be intermingled in any way, since, normally, resources may not be utilized between funds.

(j) Income:

(i) Voluntary contributions from donors are recorded as income on the basis of a written commitment to pay monetary contributions at specified times within the current financial period. Other voluntary contributions are recorded as income upon receipt of cash. Voluntary contributions made in the form of services and supplies that are acceptable to the Institute are noted in the financial statements as contributions in kind;

(ii) Interest income includes all interest earned on deposits in various bank accounts, investment income earned on marketable securities and other negotiable instruments, and investment income earned in the cash pools. All realized losses and net unrealized losses on short-term investments are offset against investment income. Investment income and costs associated with the operation of investments in the cash pool are allocated to participating funds;

(iii) Miscellaneous income includes subscriptions to e-learning courses, sale of used or surplus property, refunds of expenditure charged to prior periods, income from net gains resulting from currency translations, settlements of insurance claims, monies accepted for which no purpose was specified, and other sundry income;

(iv) Funds received under inter-organization arrangements represent income received from other United Nations agencies in support of the Institute's programmes and allocations of funding for projects or programmes administered by the Institute on their behalf. The allocation income from the United Nations Development Programme (UNDP) is determined taking into account the gain or loss on exchange and other miscellaneous income and prior year adjustments, if any, against total expenditure;

(v) Income relating to future financial periods is not recognized in the current financial period and is recorded as deferred income, as referred to in item (m) (iii) below.

(k) Expenditure:

(i) Expenditure is incurred against authorized appropriations or commitment authorities. Total expenditure reported includes unliquidated obligations and disbursements;

(ii) Expenditure incurred for non-expendable property is charged to the budget for the period during which the property was acquired and is not capitalized. Inventory of such non-expendable property is maintained at historical cost;

(iii) Expenditure for future financial periods is not charged to the current financial period and is recorded as deferred charges, as referred to in item (l) (iv) below;

(iv) Provision to meet contingencies under appendix D to the Staff Rules of the United Nations for personnel is calculated on the basis of 1 per cent of net base pay and charged to expenditure.

(l) Assets:

(i) Cash and term deposits represent funds held in demand deposit accounts and interest-bearing bank deposits;

(ii) Investments include marketable securities and other negotiable instruments acquired by the Organization to produce income. Short-term investments are stated at the lower of cost or market value; long-term investments are stated at cost. Cost is defined as the nominal value plus or minus any unamortized premium or discount. The market value of investments is disclosed in the footnotes to the financial statements;

(iii) Cash pools comprise participating funds' share of cash and term deposits, short-term and long-term investments and accrual of investment income, all of which are managed in the pools. The investments in the cash pools are similar in nature and are accounted for as set out in item (l) (ii) above. The share in the cash pools is reported separately in each participating fund's statement and its composition and the market value of its investments are disclosed in the footnote to the financial statement. Currently, the Institute participates in the United Nations offices away from Headquarters cash pool only. Additional details are provided in note 4;

(iv) Deferred charges normally comprise expenditure items that are not properly chargeable to the current financial period. They will be charged as expenditure in a subsequent period. These expenditure items include commitments for future financial periods in accordance with financial rule 106.7. Such commitments are normally restricted to administrative requirements of a continuing nature and to contracts or legal obligations where long lead times are required for delivery;

(v) Maintenance and repairs of capital assets are charged against the appropriate budgetary accounts. Furniture, equipment, other non-expendables and leasehold improvements are not included in the assets of the Institute. Such acquisitions are charged against budgetary accounts in the year of purchase. The value of non-expendable property is disclosed in the notes to the financial statements.

(m) Liabilities and reserves and fund balances:

(i) Operating reserves are included in the totals for "reserves and fund balances" shown in the financial statements;

(ii) Unliquidated obligations for future years are reported both as deferred charges and as unliquidated obligations;

(iii) "Contributions received in advance" refers to pledged contributions for future periods and other income received but not yet earned;

(iv) Commitments in respect of UNITAR relating to prior, current, and future financial periods are shown as unliquidated obligations. Current period obligations related to the General Fund and the Special Purpose Grants Fund remain valid for 12 months following the end of the biennium to which they relate. However, for the activities financed by UNDP, in accordance with UNDP reporting requirements, executing agencies may retain unliquidated obligations beyond 12 months when a firm liability to pay still exists. Cancellations of prior period obligations are credited to individual projects as a reduction of current period expenditure, in accordance with UNDP reporting requirements;

(v) Accrued liabilities for end-of-service and post-retirement benefits, comprising those for after-service health insurance, repatriation benefits and unused vacation days, are recorded on the basis of an actuarial valuation (see note 5);

(vi) Contingent liabilities, if any, are disclosed in the notes to the financial statements;

(vii) UNITAR is a member organization of the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a funded, multi-employer defined-benefit plan. An actuarial valuation of the Pension Fund's assets and pension benefits is prepared every two years. As there is no consistent and reliable basis for allocating the related liabilities/assets and costs to individual participating organizations, the United Nations is not in a position to identify its share of the underlying financial position and performance of the Pension Fund with sufficient reliability for accounting purposes and hence has treated this plan as if it were a defined-contribution plan. Thus the UNITAR share of the related net liability/asset position of the Pension Fund is not reflected in the financial statements. The Institute's contribution to the Pension Fund consists of its mandated contribution at the rate established by the General Assembly, currently 7.9 per cent for the participant and 15.8 per cent for the organizations, of the applicable pensionable remuneration, together with its share of any actuarial deficiency payments under article 26 of the Regulations of the Pension Fund. Such deficiency payments are payable only if and when the General Assembly has invoked the provision of article 26, following a determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as at the valuation date. As at the reporting date for the current financial statements, the General Assembly had not invoked this provision.

Note 3**Income, expenditure and changes in reserves and fund balances (statement I); assets, liabilities and reserves and fund balances (statement II); cash flows (statement III)**

(a) Statements I, II and III contain financial results for UNITAR that are totalled into four groups of related funds, and, after elimination, combined into a grand total reflecting all activities of the Institute. This combined presentation should not be interpreted to mean that any individual fund can be used for any purpose other than that for which it is authorized. The four groups consist of:

- (i) The General Fund;
- (ii) The Special Purpose Grants Fund;
- (iii) Activities financed by UNDP;
- (iv) After-service health insurance.

(b) Funds received under the Special Purpose Grants Fund are earmarked for specific projects and certain administrative costs are charged thereto. The closing fund balance represents expenditure to be incurred in future periods on such projects, with the residual balances, if any, to be returned to donors.

(c) Statement I includes two calculations of the excess or shortfall of income compared with expenditure. The first calculation is based on income and expenditure only for the current biennium. The second calculation shown is a net one, which includes non-budgeted accrued expenses for end-of-service and post-retirement benefits and any prior period adjustments to income or expenditure.

Note 4**Cash pool**

(a) Background:

(i) The United Nations Treasury centrally invests surplus funds on behalf of the Secretariat, including the Institute. Such surplus funds are combined in one of three internally managed cash pools, which invest in major segments of the money and fixed income markets. Pooling the funds has a positive effect on overall investment performance and risk, because of economies of scale and by the ability to spread yield curve exposures across a range of maturities;

(ii) Investment activities are guided by the principles contained in the Investment Management Guidelines ("Guidelines"). An Investment Committee periodically assesses compliance with the Guidelines, makes recommendations for updates thereto, and also reviews the performance of the various cash pools.

(b) Investment management objectives:

Further to the Guidelines, investment objectives of all the cash pools, in order of priority, are the following:

- (i) Safety: ensure the preservation of capital;

(ii) Liquidity: ensure sufficient liquidity to enable the United Nations to readily meet all operating requirements. Only assets which have a readily available market value and can be easily converted to cash are held;

(iii) Return on investment: attain a competitive market rate of return, taking into account investment risk constraints and the cash flow characteristics of the pool. Benchmarks determine whether satisfactory market returns are being achieved in the cash pool.

(c) Financial information pertaining to the offices away from Headquarters cash pool:

(i) The Institute participates only in the offices away from Headquarters cash pool, which invests in a variety of securities. Such securities may include, but are not restricted to, bank deposits, commercial paper, supranational securities, government agency securities and government securities with maturities of five years or less. All of the securities are denominated in United States dollars. The cash pool does not invest in derivative instruments, asset-backed, mortgage-backed or equity products;

(ii) Investment transactions are accounted for on a settlement date basis. Investment income is recognized on the accrual basis; transaction costs that are directly attributable to the investment activity of the offices away from Headquarters cash pool are expensed as incurred in the cash pool and the net income is distributed proportionately to the funds participating in the pool;

(iii) Gains and losses on the sale of investments are calculated as the difference between the sales proceeds and book value and are reflected in the net income distributed to the offices away from Headquarters cash pool participants;

(iv) As at 31 December 2011, the offices away from Headquarters cash pool held assets of \$1,571.6 million; of this amount \$14.5 million was due to the Institute, as reflected in the cash pool line in statement II;

(v) Financial information on the offices away from Headquarters cash pool as at 31 December 2011 is summarized in table 1.

Table 1
Summary of assets and liabilities of the offices away from Headquarters cash pool as at 31 December 2011

(Thousands of United States dollars)

<i>Offices away from Headquarters cash pool</i>	
Assets	
Short-term investments ^a	627 484
Long-term investments ^b	940 267
Total investments	1 567 751
Cash	2
Accrued investment income	3 842
Total assets	1 571 595
Liabilities	
Payable to the Institute	14 457
Payable to other funds participating in the cash pool	1 557 138
Total liabilities	1 571 595
Net assets	—

Summary of net income of the cash pool for the biennium ended 31 December 2011

(Thousands of United States dollars)

Net income	
Interest income	40 714
Realized gains on sales of securities	10 080
Securities lending income ^c	559
Net income from operations	51 353

^a Lower of book value or fair value.

^b Book value.

^c Securities lending refers to the short-term loan of securities owned by the United Nations to other parties, and for which a fee is paid to the United Nations. The terms of the loan are governed by an agreement, which requires the borrower to provide the United Nations with collateral of a value greater than the loaned security.

(d) Composition of the offices away from Headquarters cash pool:

Table 2 shows a breakdown of the investments held in the offices away from Headquarters cash pool by type of instrument:

Table 2

Investments of the offices away from Headquarters cash pool by type of instrument as at 31 December 2011

(Thousands of United States dollars)

<i>Offices away from Headquarters cash pool</i>	<i>Book value</i>	<i>Fair value^a</i>
Bonds		
Government agencies	989 127	990 001
Non-United States sovereigns and supranationals	325 031	326 577
Subtotal	1 314 158	1 316 578
Discounted instruments ^b	74 978	74 981
Term deposits	178 615	178 615
Total investments	1 567 751	1 570 174

^a Fair value is determined by the independent custodian based on valuations of securities that are sourced from third parties.

^b Includes United States Treasury bills and discount notes.

(e) Financial risk management:

The offices away from Headquarters cash pool is exposed to a variety of financial risks, including credit risk, liquidity risk and market risk (which includes interest rate risk and other price risks), as described below:

(i) Credit risk:

The Guidelines require that investments not be made in issuers whose credit ratings are below specifications and also provide for maximum concentrations with given issuers. These requirements were met at the time the investments were made. The credit ratings used are those determined by the major credit-rating agencies; Standard & Poor's and Moody's are used to rate bonds and commercial paper, and the Fitch Individual Rating is used to rate term deposits. The credit ratings of the issuers whose securities were held in the offices away from Headquarters cash pool as at 31 December 2011 are shown in table 3:

Table 3
Investments of the offices away from Headquarters cash pool by credit ratings as at 31 December 2011

(Thousands of United States dollars)

<i>Offices away from Headquarters cash pool</i>	<i>Total^a</i>	<i>Ratings</i>
Bonds	1 314 158	S&P: 41.4% AAA and 58.6% AA+/AA-; Moody's: 94.7% Aaa and 5.3% Aa1/Aa3
Discounted instruments ^b	74 978	S&P: A-1+; Moody's: P-1
Term deposits	178 615	Fitch: 60.8% A/B and 39.2% B
Total investments	1 567 751	

^a Represents the book value of securities as at 31 December 2011.

^b Includes United States Treasury bills and discount notes.

(ii) Liquidity risk:

The offices away from Headquarters cash pool is exposed to liquidity risk associated with the requirement of participants to make withdrawals on short notice. It maintains sufficient cash and marketable securities to meet United Nations commitments as and when they fall due. The major portion of the cash pool's cash and cash equivalents and investments are available within one day's notice to support operational requirements. The cash pool is therefore able to respond to withdrawal needs in a timely manner and liquidity risk is considered to be low.

(iii) Interest rate risk:

a. Interest rate risk is the risk of variability in investments' values due to changes in interest rates. In general, as an interest rate rises, the price of a fixed rate security falls, and vice versa. Interest rate risk is commonly measured by the fixed rate security's duration, with duration being a number expressed in years. The larger the duration, the greater the interest rate risk;

b. The offices away from Headquarters cash pool is exposed to interest rate risk as its holdings comprise interest-bearing securities. As at 31 December 2011, the cash pool invested primarily in securities with shorter terms to maturity, with the maximum term being less than four years. The average duration of the cash pool was 0.89 years, which is considered to be an indicator of low interest rate risk;

c. Table 4 shows how the fair value of the offices away from Headquarters cash pool as at 31 December 2011 would increase or decrease should the overall yield curve shift in response to changes in interest rates. The impact of a shift up or down of up to 200 basis points in the yield curve is shown (100 basis points equals 1 per cent). However, in view of the current interest rate environment, the basis point shifts should be considered to be illustrative.

Table 4
Sensitivity of the offices away from Headquarters cash pool to interest rates as at 31 December 2011

<i>Shift in yield curve (basis points)</i>	<i>Change in fair value (millions of United States dollars)</i>
-200	28
-150	21
-100	14
-50	7
0	0
50	-7
100	-14
150	-21
200	-28

(iv) Other price risk:

The offices away from Headquarters cash pool is not exposed to significant other price risk, as it does not sell short, or borrow securities, or purchase securities on margin, all of which limits the potential loss of capital.

Note 5

Accrued liabilities for end-of-service and post-retirement benefits

(a) End-of-service and post-retirement benefits comprise after-service health insurance coverage, repatriation benefits and commutation of unused vacation days. As disclosed in note 2 (m) (v), all three liabilities are determined on the basis of an actuarial valuation, which was undertaken by an independent, qualified actuarial firm.

(b) After-service health insurance (ASHI):

(i) Upon end of service, staff members and their dependants may elect to participate in a defined benefit health insurance plan of the United Nations, provided they have met certain eligibility requirements, including 10 years of participation in a United Nations health plan for those who were recruited after 1 July 2007, and five years for those who were recruited prior to this date. This benefit is referred to as after-service health insurance;

(ii) The major assumptions used by the actuary to determine the liabilities for after-service health insurance as at 31 December 2011 were a discount rate of 4.5 per cent; health-care escalation rates of 8.0 per cent in 2012, grading down to 4.5 per cent in 2027 and later years; and retirement, withdrawal and mortality assumptions consistent with those used by the United Nations Joint Staff Pension Fund in making its own actuarial valuation of pension benefits. The main changes as compared to the 31 December 2009 valuation were: (i) a decline in the assumption for the discount rate from 6.0 per cent to 4.5 per cent, reflecting a broad decline in interest rates of the benchmark, which is based on rates for high quality corporate bonds; and (ii) an assumption for higher health-care escalation rates for plans outside of the United States;

(iii) Another factor in the after-service health insurance valuation is to consider contributions by all plan participants in determining the Institute's residual liability. Thus, contributions from retirees are deducted from the gross liability and a portion of the contributions from active staff is also deducted to arrive at the Institute's residual liability in accordance with cost-sharing ratios authorized by the General Assembly. These ratios require that the Institute's share shall not exceed one half for non-United States health plans, two thirds for United States health plans, and three quarters for the medical insurance plan;

(iv) On the basis outlined in (ii) and (iii) above, the present value of the accrued liability as at 31 December 2011 was estimated at \$3,720,000, net of contributions from plan participants.

<i>After-service health insurance</i>	<i>Accrued liability (thousands of United States dollars)</i>
Gross liability	7 442
Offset by contributions from plan participants	(3 722)
Net liability of the Institute	3 720

The above net liability of \$3,720,000 compares to an estimate of \$1,923,000 as at 31 December 2009. The increase of \$1,797,000 is mainly due to an actuarial loss of \$1,124,000, which is primarily due to the change in assumption for discount rates, from 6.0 per cent as at 31 December 2009 to 4.5 per cent as at 31 December 2011.

(v) Further to the assumptions in (b) (ii) above, it is estimated that the present value of the liability would increase by 28 per cent and decrease by 21 per cent if the medical cost trend is increased and decreased by 1 per cent, all other assumptions remaining constant. Similarly, it is estimated that the accrued liability would increase by 29 per cent and decrease by 21 per cent if the discount rate is decreased and increased by 1 per cent, all other assumptions remaining constant.

(c) Repatriation benefits:

(i) Upon end of service, staff who meet certain eligibility requirements, including residency outside their country of nationality at the time of separation, are entitled to a repatriation grant, which is based upon length of service, and travel and removal expenses. These benefits are collectively referred to as repatriation benefits;

(ii) The major assumptions used by the actuary were a discount rate of 4.5 per cent; annual salary increases ranging from 9.1 per cent to 4.0 per cent based on age and category of staff members, and travel cost increases of 2.5 per cent in future years;

(iii) On the basis of these assumptions, the present value of the accrued liability for repatriation benefits as at 31 December 2011 was estimated at \$98,000 for the General Fund and \$739,000 for the Special Purpose Grants Fund;

(d) Unused vacation days:

(i) Upon end of service, staff members may commute unused vacation days up to a maximum of 60 working days for those holding fixed-term or continuing appointments;

(ii) The major assumptions used by the actuary were a discount rate of 4.5 per cent and an annual rate of increase in accumulated annual leave balances of 12.5 days in each of the first three years, 3.0 days per year in the fourth to sixth years, and 0.1 days annually thereafter, capping at an accumulation of 60 days. Salary is assumed to increase annually at rates ranging from 9.1 per cent to 4.0 per cent based on age and category of the staff members;

(iii) On the basis of these assumptions, the present value of the accrued liability for unused vacation days as at 31 December 2011 was estimated at \$47,000 for the General Fund and \$300,000 for the Special Purpose Grants Fund.

Note 6

Contributions in kind

(a) The United Nations Office at Geneva provided administrative support services, including payroll, accounting, travel and visa processing, personnel, and the Integrated Management Information System services, to UNITAR at no cost. The value of this contribution in kind is estimated at \$1,631,100 for the biennium. Conference-servicing facilities at United Nations Headquarters were also provided by the United Nations on an "as available" basis, free of charge, and UNITAR pays only for interpretation services and additional electronic equipment, if required. The value of such conference facilities is estimated at \$41,200.

(b) In addition, the Institute received contributions in kind estimated at \$981,000 from various Governments, United Nations agencies, and other donors for training programmes, services of experts, conference facilities, local workshop expenses, office expenses, and travel and research expenses.

Note 7

Non-expendable property

(a) In accordance with United Nations accounting policies, non-expendable property is not included in the fixed assets of the Institute but is charged against the current appropriations when acquired. The non-expendable property, valued at historical cost, according to the cumulative inventory records of the Institute, amounted to \$694,000 as at 31 December 2011 and \$598,000 as at 31 December 2009.

(b) The movement in non-expendable property is summarized as follows (in thousands of United States dollars):

	2010-2011	2008-2009
Balance as at 1 January 2010 and 2008	598	512
Acquisitions	169	111
Less: dispositions	(73)	(25)
Balance as at 31 December 2011 and 2009	694	598

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